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JANUARY 20, 1991
A BILL PUBLICATION

Wrong Time, Wrong Place

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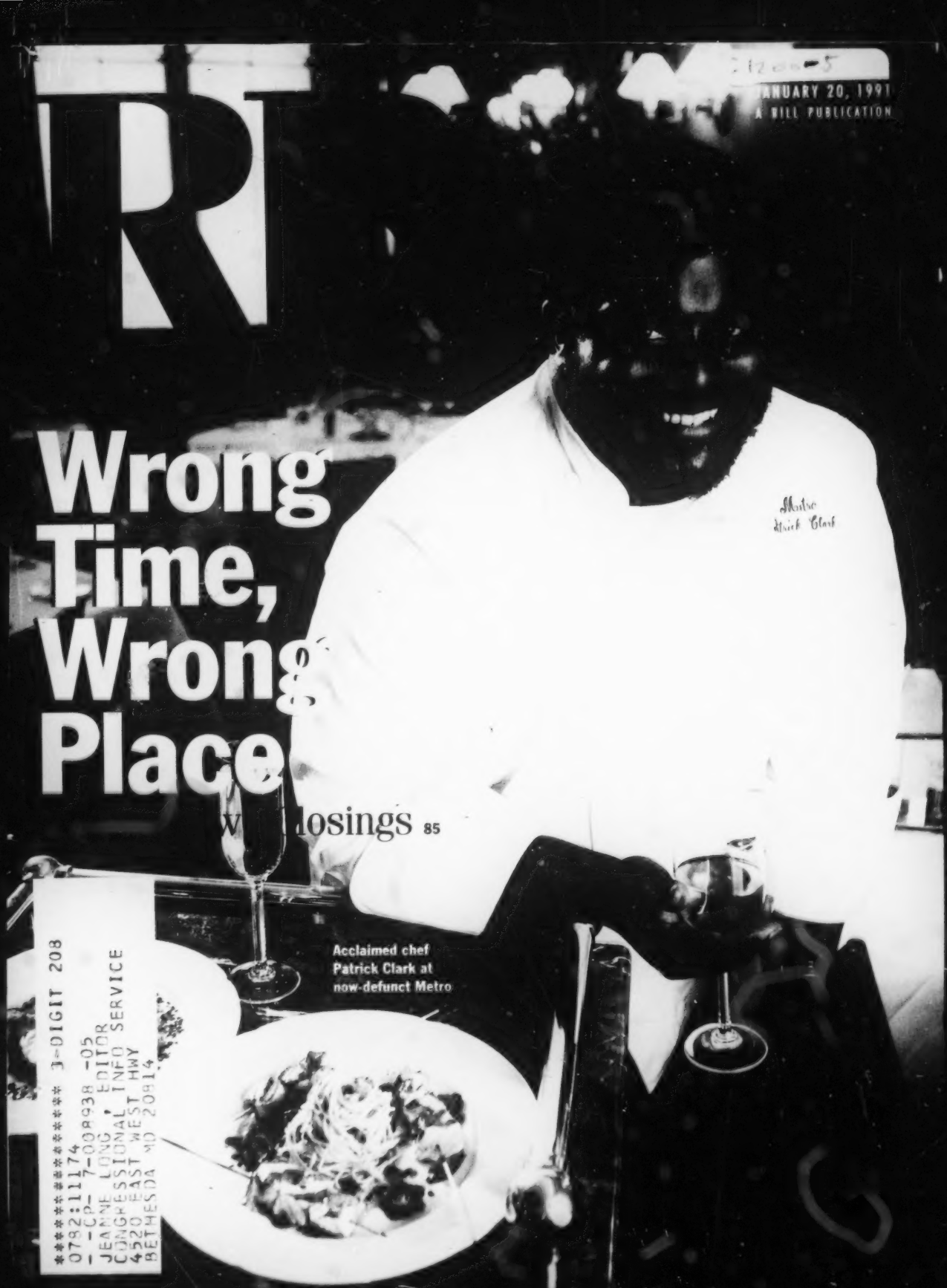

Acclaimed chef Patrick Clark at now-defunct Metro

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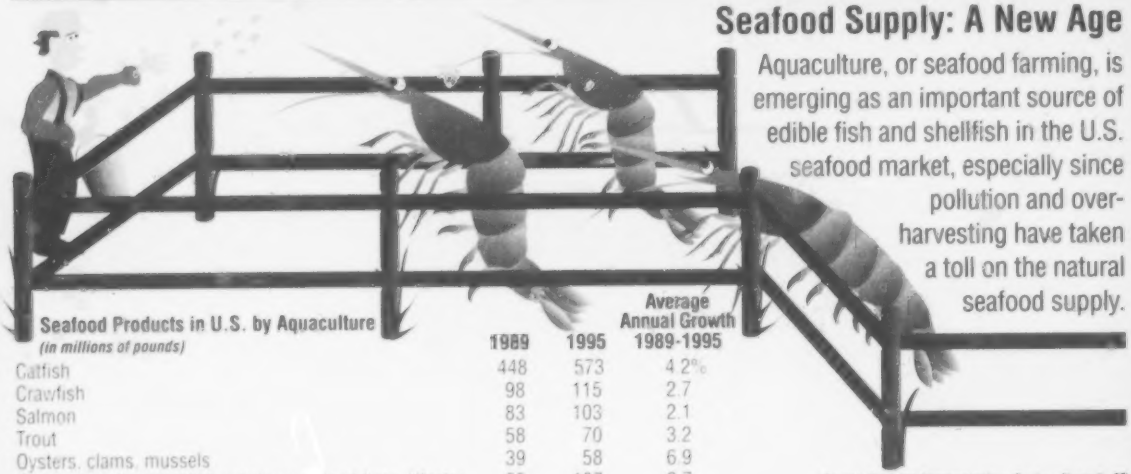
BUSINESS BAROMETER

Seafood Supply: A New Age



Aquaculture, or seafood farming, is emerging as an important source of edible fish and shellfish in the U.S. seafood market, especially since pollution and overharvesting have taken a toll on the natural seafood supply.

Seafood Products in U.S. by Aquaculture *(in millions of pounds)*	1989	1995	Average Annual Growth 1989-1995
Catfish	448	573	4.2%
Crawfish	98	115	2.7
Salmon	83	103	2.1
Trout	58	70	3.2
Oysters, clams, mussels	39	58	6.9
Other edible fish/shellfish (abalone, striped bass, tilapia)	65	107	8.7

Source: Business Communications Co. Inc., Norwalk, CT

U.S. Regions: There is a Difference

Fastest-Growing Menu Items (1987-1989)

A study of menu items in four regions of the U.S. showed distinct regional preferences, although one item—frozen yogurt—was fastest-growing in three out of four sections of the country.

Most Popular Menu Items (1989)

NORTHEAST	Veal
MIDWEST	Fried Fish Sandwiches
SOUTH	Biscuits
WEST	Mexican

Source: NPD/CREST, National Restaurant Association

Good News for Domestic Products

Adult Americans said they don't believe imported food and drink is worth the extra cost, according to a recent survey asking them their opinions on imported vs. domestic products.

("Don't know" responses not included)

Source: Roper's Public Pulse

Charts by Peter K. Niceberg

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COVER STORY: **A Tale of Two Closings. Pictured on the cover is Patrick Clark, former chef/owner of the now defunct Metro. Page 85.**

COVER STORY

A TALE OF TWO CLOSINGS. An in-depth look at two operators who didn't fare as well as they had hoped: Patrick Clark, former chef/owner of Manhattan's widely acclaimed Metro, and Brion Foulke, founder, chairman, and president of the Ft. Lauderdale-based Taco Viva. Metro, despite rave reviews, still couldn't survive the New York market. After years of decline, Taco Viva has been sold to Miami Subs. **85**

FEATURES

INDEPENDENT STAR CHARLIE MITCHELL. In Tulsa, OK, an ex-soccer player and coach presides over four restaurants that gross over $5 million. **66**

INDEPENDENT STAR DEITRICH'S. For more than six decades, folks in Louisville, KY, lined up practically every night to get inside the Crescent Theater. For the last two years, however, a Hollywood movie hasn't been the feature attraction. Since 1988, the 63-year-old Crescent has been operating as Deitrich's, a 150-seat restaurant owned by the veteran Louisville restaurateurs Bill and Joanne Deitrich. Locals have taken a liking to the theater-turned-restaurant: First-year sales totaled $1.2 million, a figure that was matched again in 1990. **73**

CHAIN HOWARD JOHNSON'S. Equipped with a new menu and updated prototype, the chain's franchise system hopes to make a comeback. Its plan is to rebuild the once-mighty organization by attracting both new customers and new franchisees. **78**

MARKET SEGMENT REPORT ITALIAN. At a time when most operators have to rethink expansion, the Italian segment remains healthy. Traditionally dominated by independents, this segment continues to experience chain growth. Perception of Italian food as healthy, coupled with its popularity as the number-one ethnic cuisine have contributed to steady growth. **99**

Cover photography by Mark Ferri.

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FOOD AND BEVERAGE

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CHEF'S ART JEAN-LOUIS GERIN. The chef/owner of Restaurant Jean-Louis in Greenwich, CT, creates innovative dishes like his lobster sauté. **134**

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Reprints of the **1990 RESTAURANT GROWTH INDEX** and **1990 MAJOR FORCES IN FRANCHISING** are now available for $7 per copy. Direct all inquiries to Editorial Director Peter Berlinski, *Restaurant Business*, 633 Third Ave., New York, NY 10017.

IN THE NEXT ISSUE

COVER STORY: RESORTS. Longer guest stays, the need for variety, cosmopolitan cuisine, using food and beverage service as a sales tool, the roles of fine dining and spa cuisine—these are just some of the opportunities and peculiar pitfalls of operators in resort settings. This article will take a market segment approach to resort foodservice in hotels, restaurants, ski resorts, and cruise ships.

MARKET SEGMENT REPORT: RETAIL/DELI. Supermarkets and delis are giving restaurant owners a run for their money by offering a variety of prepared foods to go, sit-down convenience, and even delivered pizza.

SPECIAL FEATURE: MULTIUNIT OPERATORS. What is it that has made so many restaurateurs risk everything they have worked for to open a second restaurant or more? The answer isn't simple, but many operators find it a necessary and logical next business step. Building assets to ensure profitability while maintaining a solid cash flow is just one of the reasons.

TEST KITCHEN:
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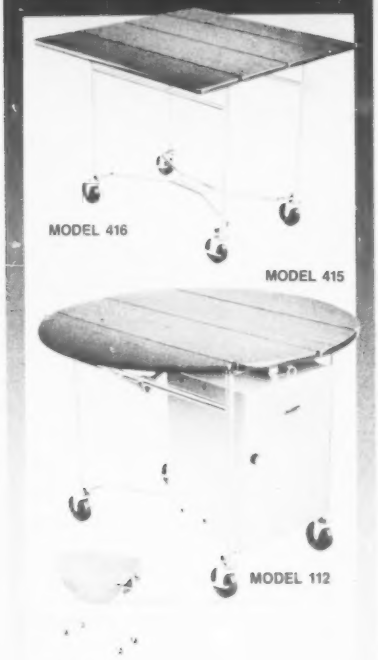
ROOM SERVICE



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MARKET SEGMENT REPORT

ITALIAN

Low food costs help maintain good price/value.

By Kevin Farrell

The Italian market segment, long resilient in the face of the troublesome currents buffeting the restaurant industry, is confident that it can ride out today's downturn. According to Italian restaurant operators—from national chains to local independents—the outlook for Italian eateries is good. Especially at the lower to medium price points, Italian restaurant operators anticipate that 1991 will be at least as good as the last two years, and possibly even better.

"We're holding our own, and we expect that we'll at least stay even with last year," reports Bob Gilka, vice president of marketing and advertising for 16-unit Spaghetti Warehouse of Garland, TX.

Gilka's observations are echoed by many in the Italian segment. "The Italian market has two very good things going for it," says Lee Cohn, chairman of 11-unit, Phoenix-based Big 4 Restaurants Inc., which just opened Aldo Baldo, a new Italian restaurant in Scottsdale, AZ. "You don't have to sell customers on Italian food because they already love it, and it is very cost effective. There are few other restaurant concepts where you can keep food costs low and still maintain value for the consumer. That's very hard to do with steak or seafood. It gives ethnic cuisines, especially Italian, a definite edge."

Adds Robert Barr, director of marketing for Portland, OR-based OSF International, operator of 38-unit Old Spaghetti Factory, "We think the future is very strong because we've always done well in economic downturns."

Pictured at right is a unit of The Pasta House Company, a mid-scale chain of Italian restaurants.

DRAMATIC CHANGE. Although it provides what is clearly America's favorite ethnic cuisine, the Italian market segment has changed dramatically in the last five years. The arrival of Italian dinner-house chains—most notably General Mills' Olive Garden—has given the segment a new twist. Still dominated by independents throughout the United States, the Italian segment is seen as a hot growth area for all the chains that operate in it. Among them: Spaghetti Warehouse, Old Spaghetti Factory, Sbarro, Grisanti's, The Pasta House, and Fazoli. Jerrico, which operated Fazoli and Florenz, has sold Fazoli to a group of Japanese investors and is busy shuttering its two remaining Florenz. A host of notable regional chains, such

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LOGO BY STEPHANIE CASSAS

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as Chicago's Lettuce Entertain You Enterprises, Seattle's Schwartz Brothers, San Francisco's Spectrum Restaurants, and Los Angeles' University Restaurant Group operate Italian restaurants, which are among the highest-grossing—and most profitable—in their stables of concepts.

What accounts for the stability of the Italian market? "We think it's the affordability of the food," says Robert Koebele, chief financial officer for Sbarro of Commack, NY. Sbarro, with 440 units, operates primarily in shopping malls with a steam-table concept offering pizza from $1.50 a slice to hot entrees in the $5 price range.

"Clearly, in addition to the popularity of the cuisine, price is the principal factor," agrees Anne Powell, director of communications for 224-unit Olive Garden, based in Orlando, FL. "We see this as well with Red Lobster, our other midscale concept. Americans are addicted to eating out—people can't give it up. They'll trade down instead of stopping eating out, and restaurants like Olive Garden are well-positioned to take advantage of that."

In addition to price, Italian operators point to the food's image as healthy. "We're coming up with new menu items all the time that appeal to what people want today," claims J. Kim Tucci, co-owner of The Pasta House Company Inc., a 25-unit chain based in St. Louis. "We're offering items without meat- or cream-based sauces, and people want those kinds of dishes. They're interested in having less fat in their diets, and pasta-based dishes provide that."

Adds Powell of Olive Garden: "We see continuing—and growing—interest in health and nutrition. It's not just a fad, it's how most people feel now. Our menu positions us to take advantage of these trends."

The chains operating in the Italian market segment all claim that their 1991 growth plans will at least match those for 1990. Olive Garden will add 50 restaurants, The Pasta House will build four new units, Spaghetti Warehouse will add four, Old Spaghetti Factory plans to add two to three, and newcomer Fazoli, an Italian fast-food concept, plans to have up to 150 units in operation within five years.

CAUTION. But, while generally optimistic, Italian operators are sounding a note of caution. "Our average unit volumes are up from last year," says Powell, "But we wonder how much more they would have been up without gas price increases." Indeed, many Italian dinnerhouses are designed to be destination restaurants, and the increase in gasoline prices could take its toll. "There are some indications that people are spending less when they eat out, or that they are eating out in restaurants less. We're still doing well, but we don't think it's as good as it could be," says Spaghetti Warehouse's Gilka. "It's definitely getting tougher out there," he adds.

To respond to a tougher marketplace, and to build share in an environment that is increasingly becoming more competitive, Italian segment operators are focusing on

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Italian food is generally perceived as healthy and nutritious.

True to its name, The Old Spaghetti Factory offers many spaghetti dishes.

MARKET SEGMENT REPORT

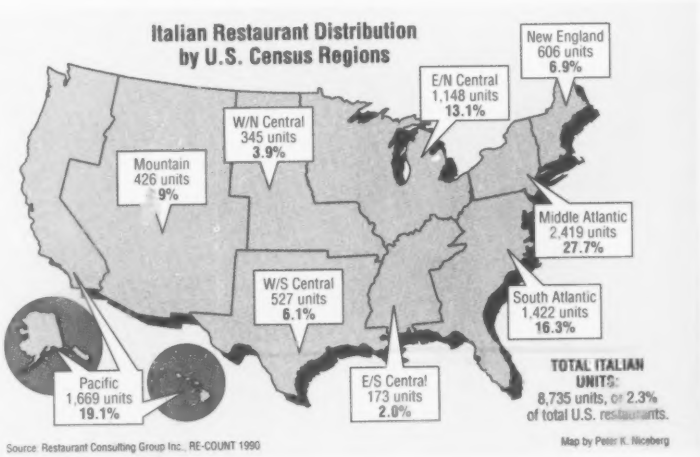
ITALIAN

menu changes, marketing, promotions, and pricing. "We're negotiating more with our purveyors to make sure we don't have to raise prices at our restaurants," says John Schwartz, cofounder of Schwartz Brothers Restaurants in Bellevue, WA. Schwartz Brothers operates three Cucina!Cucina! Italian restaurants in the Seattle area. "The Italian properties are doing very well, and we may open more as a result," says Schwartz. In addition to tightening purchasing procedures, Schwartz decided to begin charging for bread at Cucina!Cucina! "It just made sense that the people who want it should pay for it," he says.

FRESH MENU. Other chains are focusing on menu additions to attract new customers and keep old ones. "We try to keep the menu fresh," says Powell of Olive Garden, which has added cannelloni, linguine with clam sauce, and crab Alfredo in the last year or so. "We'll put things on as daily specials to see how they do," says Powell. "If they demonstrate enough popularity, they'll go on the permanent menu. About 30% of what we offer now was not on our original menu," she adds.

"We're always looking for new items that our customers will enjoy," says Tucci of The Pasta House Company. "Recently, we've added cheese sticks and Italian potato skins as appetizers. We've also made two new pastas available: seafood pasta ($7.95) and Sicilian pasta ($5.95), which is made with sun-dried tomatoes, oil, butter, and garlic. Both have done well."

Barr of OSF reports that Old Spaghetti Factory has added a baked chicken with a Mediterranean-style sauce to its menu, and says that the chain is testing potential new menu items. Among them: a seafood fettuccine and a cannelloni. "Also, in the last year, we have retooled two of our most popular sauces," adds Barr. "Our clam sauce is lighter, and we're making it in smaller batches so that it will be fresher. And we've made our marinara sauce chunkier in response to consumers. In a sense, we've taken both sauces 'upscale'."



Most segment chains are taking a cautious approach to menu changes.

We take a very cautious approach to changing the menu," says Gilka of Spaghetti Warehouse. "We have one or two daily specials on a store's blackboard in selected markets, an idea that we're broadening slowly. We may try some new items systemwide in the next year to see how they do, but we have no plans now for new additions to the whole chain's menu."

MORE PROMOTION. Spaghetti Warehouse has been focusing more on building traffic. "Our strategy has changed," adds Gilka. "We're doing more advertising and promotion than last year because of the recession, but also because it is more competitive." In January and February, Spaghetti Warehouse plans to resurrect its "Lasagna Lover's" promotion. Fifteen-layer lasagna, the chain's signature dish as well as its most popular item, will be offered for $6.95, compared to the usual $7.50. Bread will be available for only $1 more. "We do heavy radio and print advertising with the lasagna promotion," says Gilka. "It helps us a lot during a time when business could really fall off."

Olive Garden also employs a strategy of "menu events" to drive business. In February, it will offer a "Carnival of Venice" promotion featuring entrees, appetizers, and desserts from Venice. "It is a limited promotion designed to keep things fresh," says Powell. "It excites both our customers and our employees."

The Pasta House Company markets primarily with families in mind. "We like the families," says Tucci. If we can get the families in, that's a home run for us." And, recognizing that children control the decisions on dining out in many families, The Pasta House Company recently purchased one million crayons complete with its logo for distribution in the chain's restaurants, which will be equipped with butcher's paper for each table. The chain also offers rewards to kids for completed book reports in its "Reading, Writing,

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MARKET SEGMENT REPORT

ITALIAN

and Ravioli" program. And, throughout February, all pasta will be offered at half price. "That doubles our volume," says Tucci.

In addition, the company sponsors an art contest for area students each year designed to dovetail with The Pasta House Company's slogan, "For people with a taste for a great Italian work of art." Students copy famous works of art but include a plate of spaghetti in the work. "We get lots of Mona Lisas eating spaghetti," reports Tucci, "But it's lots of fun and we get plenty of attention because of it." Winning students receive $1,000, as do their schools. Customers also get a free plate of spaghetti on their birthdays if they have signed up for the Mr. Meatball Birthday Club. "We've got to keep doing promotions like this to build business," says Tucci.

DISCOUNT DISCOUNTING. But the majority of Italian chains stay away from offering coupons or other forms of discounting. Having seen the damage that deep, habitual discounting and couponing have done to pizza restaurants, Italian operators are leery of getting involved. "That's a trap we've done our best to avoid," says Gilka of Spaghetti Warehouse. Adds Koebele of Sbarro: "We keep it very limited, and only do it occasionally on a store-by-store basis. It isn't part of our marketing approach." Barr of OSF International sums up many operators' feelings when he says: "We feel that our value is so attractive that there is no need to offer discounting or coupons to get people to come in."

Most operators are leery of couponing.

Indeed, price/value is the engine driving the Italian segment. "We think

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that if you're under $20 at night, you're offering a moderate price," says Cohn of Big 4. "Italian food is a great way to keep prices down and keep costs in line. We're not as price-sensitive as restaurants that rely on meat or seafood"

While Cohn may consider a $20 meal mid-priced, others are going for the low end of the market. The Seed Restaurant Group bought the seven-unit Fazoli chain from Jerrico earlier this year. Backed by Japan's $1.8 billion Duskin Corp., Fazoli CEO Kuni Toyoda reports that the chain will try to build a "McDonald's-like chain for Italian food." Toyoda says that Rally's quick recent growth is actually the new chain's model. "We think that it is only recruitment of good people that may slow our expansion," says Toyoda.

Currently, Fazoli's is offering territorial licensing agreements to franchisees. Average unit volume is about $1 million, and Fazoli offers lasagna (its best seller at $3.59), fettuccine Alfredo for $2.39, spaghetti with meatballs for $1.99, ravioli for $2.49, and combo platters for $2.99, among other items. It uses a scramble system with three cash registers. About 30% of the chain's sales come from drive-thru. "There is a huge market at a price point below the Olive Gardens," claims Toyoda. "And we have an investor with deep pockets to help us grow." Fazoli's intends to open 120 to 150 units over the next five years.

Although Fazoli may be seeing a third of its sales come from take-out, this is an area that many chain Italian dinnerhouses have stayed away from. "As a market segment, we really need to do a better job at take-out," says Tucci, whose company has taken steps to make changes. The Pasta House Company commissioned new packaging in 1990 that is microwaveable and biodegradable. Says Tucci, "The new packaging has increased take-out business by about 10%."

But other Italian dinnerhouses aren't so excited about the possibilities for take-out. "We have no plans to make it a focus of our business," says Barr of OSF. "We focus primarily on the experience of dining out in an atmosphere with great service and nice decor." Adds Gilka of Spaghetti Warehouse: "We're a destination restaurant. Take-out only accounts for about 1% of sales. We don't promote it."

Pictured is a typical Spaghetti Warehouse restaurant.

The segment is divided over the merit of take-out.

REGIONAL. Beyond the Italian chains, there are a number of smaller, regional organizations offering Italian food in their various markets. Lettuce Entertain You Enterprises of Chicago added Tucci Milan, a fashionable, downtown Chicago eatery, to its already impressive list of Italian concepts. Among them: Tucci Bennuch, Avanzare, and Scoozi! The Dallas-based Crillon Management Group continues to build Sfuzzi units, already a strong presence in Houston, Dallas, New York City, and Boston. Another major regional player in the Italian restaurant segment is Spectrum Foods of San Francisco. The chain offers a wide variety of Italian concepts to California diners. Among them: three-unit Prego, Spiedini, Tutto Bene, Sputino, Chianti, and Ciao! The restaurants are intentionally kept unique and not marketed as a chain.

The University Restaurant Group, operator of 555 East and the Pine Avenue Grill in Long Beach, CA, recently opened one of Los Angeles' hottest restaurants, I Cugini, in Santa Monica. Although it is part of a chain (another University property, Ocean Ave. Seafood, is two blocks away), it is marketed as an independent.

Currently, I Cugini is one of the hardest restaurants to get into in L.A. "We've had tremendous success with it," says Sam King of University Restaurant Group. "We think Italian food is incredibly popular for a number of reasons, and we expect it to stay popular." Judging from the number of Italian eateries, new additions, and the growing presence of chains in this market segment, there are obviously plenty of others who agree. RB